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FM AMEMBASSY TIRANA  
TO RUEHC/SECSTATE WASHDC PRIORITY 4408  
INFO RUEHTH/AMEMBASSY ATHENS 2927  
RUEHBW/AMEMBASSY BELGRADE 2724  
RUEHRL/AMEMBASSY BERLIN 1137  
RUEHLO/AMEMBASSY LONDON 1196  
RUEHFR/AMEMBASSY PARIS 1087  
RUEHRO/AMEMBASSY ROME 5294  
RUEHVJ/AMEMBASSY SARAJEVO 0441  
RUEHSQ/AMEMBASSY SKOPJE 4120  
RUEHVB/AMEMBASSY ZAGREB 2946  
RUFNPKB/COMUSNAVEUR NAPLES IT  
RUCPDO/DEPT OF COMMERCE WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RHMFISS/HQ USEUCOM VAIHINGEN GE  
RHEHNSC/NSC WASHDC  
RUEHBS/USEU BRUSSELS  
RUEHVEN/USMISSION USOSCE 2164  
RUEHPS/USOFFICE PRISTINA 3426

UNCLAS TIRANA 000618

SIPDIS

SENSITIVE  
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STATE FOR EUR/SCE (MBENEDICT/DSAINZ/WILLIS)  
NSC FOR BRAUN  
TREASURY FOR ATUKORALA  
USDOC FOR 4233/ITA/MAC/OEERIA/CEED (MROGERS)

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TAGS: [ECON](#) [ENRG](#) [EINV](#) [AL](#)  
SUBJECT: ENERGY POLICY CHANGES IN ALBANIA

REF: TIRANA 281

11. (U) Summary: PM Berisha recently described a series of energy-related measures to improve Albania's business climate. The GoA will alter its two-tiered electricity price structure to reduce energy prices for the private business sector to bring it more in line with regional norms and to spur economic activity. This price decrease will be offset, in part, by a planned increase in electricity prices for households. Poor families will continue to enjoy government subsidies. Berisha also re-affirmed the GoA's commitment to build an IFI-financed thermal power plant near Vlore and the rapid privatization of parts of the state-owned electric utility. End summary.

#### Business Gets a Boost

12. (U) PM Berisha told business community representatives in May that the GoA will significantly reduce the price of electricity for businesses starting July 1 as part of a larger set of measures to improve the business climate. (Note: Albania employs a two-tiered pricing structure for electricity. To date, household consumers paid low rates and business customers paid high rates -- nearly double that of households. End Note.) Berisha said the price reduction for businesses -- 33 percent -- aims to reduce private sector costs, spur business activity and increase employment. This measure, he indicated, was even more important in the context of the soon-to-be signed Stabilization and Association Agreement with the European Union, and existing free trade area agreements with regional countries, which will increase competitive pressures on domestic industries.

13. (U) At the same time, the GoA will increase electricity prices for households in order to bring the cost to price ratio in line. However, to soften the social impact, the GoA

will subsidize approximately 190,000 families who cannot afford the higher price. The amount of the price increase will vary according to the amount of electricity consumed. Opposition lawmakers have opposed the plan and expressed concerns about its social impact. Shortly after Berisha's announcement, the Energy Regulatory Authority approved the price changes.

#### Balanced Electricity Production

¶4. (SBU) Energy generation in Albania heavily depends on weather conditions because 95 percent of electricity production comes from hydropower plants located in the north of the country. The GoA wants to balance sources and geographic location of generation facilities and is focused on constructing new thermal power plants in central and southern Albania where power consumption is highest. (Note: the current mismatch between power generation in the north and heavy consumption in the south results in large transmission losses. End note.) Berisha confirmed his government's desire to build a long-planned (and World Bank/EBRD/EIB financed) thermal power plant in Vlore despite local opposition. Berisha also said it was the GoA desired another, bigger plant in Korce, and the rehabilitation of the existing plant in Fier. (Berisha offered no specifics on these last two projects). Berisha also mentioned the giant natural gas power facility planned by ASG in southern Albania (see reftel).

¶5. (U) Berisha added that the GoA would establish two energy parks, one in Porto Romano, north of Durres, and the other one in PishPorro, north of Vlore. The ultimate goal, he said, was for Albania to become a net exporter of energy.

¶6. (U) GoA commitment to building new hydropower plants and improving transmission facilities with neighboring countries remained strong, Berisha said. To complement the already financed Tirana-Podgorice 400 kV line (which runs north-south), the GoA was seeking for funds for two other 400 kV lines, both running east-west, Vau Dejes-Prishtine and Elbasan-Skopje.

#### Privatization

¶7. (U) Berisha said the GoA was interested in accelerating privatization of parts of the state-owned electric utility, KESH, particularly its distribution division. (Note: The privatization of large state-owned companies was one of the main requests of IMF representatives during their last visit to Tirana in May.)

#### Comment

¶8. (SBU) Most of the "initiatives" announced by PM Berisha have been urged upon the GoA in various forms for many years by donors and international advisors, and the GoA's movement on them is welcome, especially with regard to the realignment of energy prices. KESH's previous price structure -- low prices for families, high prices for industries -- has always been criticized by experts as the reverse of what a developing country needed and has been cited by investors as a deterrent to investment. The GoA will likely come in for serious grumbling by consumers but appears to be determined to stick with the new price structure.

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